

#### Members

Rep. John Frenz, Co-Chairman  
Sen. Luke Kenley, Co-Chairman  
Rep. Eric Turner  
Sen. Lindel Hume  
Sandra Bickel  
Joe Breedlove  
Daniel Clark  
Amy Corsaro  
Deborah Driskell  
Les Fox  
Phil Hoy  
S. Michael Hudson  
Mike Karickhoff  
Patrick Kiely  
Joseph Loftus  
Joseph Minnis  
J. Daniel Philpott  
Bill Roach  
Jason Shelley  
Don Strietelmeier  
John Taylor  
Thomas Taylor  
Ernie Wiggins  
Louis Zickler



## PROPERTY TAX REPLACEMENT STUDY COMMISSION

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#### LSA Staff:

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George Angelone, Attorney for the Commission  
John Rowings, Attorney for the Commission  
Diane Powers, Fiscal Analyst for the Commission  
Jim Landers, Fiscal Analyst for the Commission  
Dagney Faulk, Fiscal Analyst for the Commission  
John Parkey, Fiscal Analyst for the Commission

Authority: P.L. 64-2004

### MEETING MINUTES<sup>1</sup>

**Meeting Date:** May 17, 2004  
**Meeting Time:** 1:00 P.M.  
**Meeting Place:** State House, 200 W. Washington St.,  
Room 404  
**Meeting City:** Indianapolis, Indiana  
**Meeting Number:** 2

**Members Present:** Rep. John Frenz, Co-Chairman; Sen. Luke Kenley, Co-Chairman; Rep. Eric Turner; Sen. Lindel Hume; Sandra Bickel; Joe Breedlove; Daniel Clark; Amy Corsaro; Deborah Driskell; Les Fox; Phil Hoy; S. Michael Hudson; Mike Karickhoff; Joseph Loftus; Joseph Minnis; J. Daniel Philpott; Bill Roach; Jason Shelley; Don Strietelmeier; Thomas Taylor; Ernie Wiggins; Louis Zickler.

**Members Absent:** Patrick Kiely; John Taylor.

Senator Luke Kenley, Commission Co-Chairman called the second meeting of the Property Tax Replacement Study Commission to order at 1:00 P.M.

At Senator Kenley's request, the Commission agreed to schedule its next meeting for 1:00 P. M., June 18, 2004, in Room 404 of the State House.

Senator Kenley indicated that the Commission would hear presentations from the Indiana Fiscal

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<sup>1</sup> Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Policy Institute (IFPI) and from Legislative Services Agency (LSA) staff before recessing to meet in working groups for about 45 minutes. He advised the Commission that LSA staff would be available for questions at the working group meetings. He also indicated that LSA had compiled additional handouts (see Exhibit 1) containing information pertinent to activities of the Commission and the working groups.

Senator Kenley outlined the substantive areas to be studied by the five working groups as follows:

- Group 1 - Property Tax Administrative Issues
- Group 2 - Local Government Services
- Group 3 - Long Term Debt Issues
- Group 4 - Other State Tax Systems
- Group 5 - Property Tax Levies and Controls.

Senator Kenley also explained what was envisioned with the working group process, and indicated that the working groups would return to make initial presentations of their efforts and findings later during the Commission meeting. He also indicated that in the absence of Commissioner Patrick Kiely, Commissioner Daniel Clark would substitute as chairman of Group 3 (Long Term Debt Issues).

Before moving to the agenda items, Senator Kenley indicated that there have been requests to have Commission meetings at several locations around the state. Senator Kenley explained that information about property tax issues and reassessment impacts around the state is well known and documented. As a result, he indicated that the Commission could appropriately fulfill its responsibilities meeting at the State House and that meetings around the state don't, at this time, appear to be necessary.

Representative John Frenz, Commission Co-Chairman suggested that anyone having information or thoughts that are relevant to the Commission's activities should please contact the either co-chairman or any of the Commission members to provide their information and input.

Senator Kenley recognized Mr. Steve Johnson, President, Indiana Fiscal Policy Institute (IFPI), to make a presentation regarding the status of the statewide property tax equalization study being coordinated by IFPI (see Exhibits 2 and 3).

Mr. Johnson highlighted the objectives of the IFPI project, including a description of the project deliverables (see Exhibit 2). He indicated that the three objectives of the project are to: (1) complete an equalization study for all 92 counties in Indiana; (2) complete the school assessment ratio study required by statute; and (3) produce a state database to be used for policy analysis and administration of the property tax.

Mr. Johnson explained the equalization concept. He also described what is involved in an equalization study, the resultant equalization adjustments that are made to assessments, and the impacts equalization and accurate assessment will have on the property tax burden and the school funding system. Mr. Johnson explained the methodological and statistical procedures being utilized in this project to ensure that sales data used to develop equalization factors and to perform the assessment ratio study are valid indicators of market valuation.

Mr. Johnson made note of the Indiana Property Tax Equalization Study Interim Report (see Exhibit 3). Mr. Johnson suggested that the report indicates the difficulty that has been experienced by project participants in collecting the property data from multiple entities and in multiple data formats. Mr. Johnson indicated that the data collection has proven to be a

substantial challenge. He described the recent efforts to electronically scan and manually input data from paper personal property tax returns to illustrate the data collection difficulties.

Mr. Johnson then responded to questions from the Commission.

Commissioner Sandra Bickel asked if information on commercial and industrial properties, particularly steel mills, was being made available. Mr. Johnson responded that steel mills have been assessed by the State of Indiana and that no final analysis of other commercial and industrial properties has been completed for any county.

Commissioner Michael Hudson asked whether other states have had such a traumatic experience with equalization studies? Mr. Johnson responded that many states complete equalization studies as a regular component of property tax evaluation, but that to his knowledge other states have not done as detailed a study as the one Indiana is currently undertaking.

Senator Kenley recognized Ms. Diane Powers, Fiscal Analyst for the Commission, to update the Commission the tax shift analysis being performed by LSA. She indicated that LSA is currently working with eight different data sources, including the parcel level data, in an effort to compile the needed information before tax shift analysis can be performed. She also indicated that as a part of this project, Dr. Larry DeBoer from Purdue University is updating the tax shift model that LSA has utilized for policy analysis in the past. Ms. Powers indicated that the data and model would be used to evaluate the impact of reassessment and allow LSA to analyze the impact of proposed legislative changes to the property tax system.

Senator Kenley asked Ms. Powers and Mr. Johnson when the respective projects could potentially be completed. Ms. Powers indicated that tax shift analysis for the first set of counties would not be available probably until late fall, 2004. Mr. Johnson indicated that a final report for the IFPI project would be ready by the end of 2004.

Senator Kenley recognized Mr. George Angelone, Attorney for the Commission, to discuss potential legal issues relating to the elimination of the property tax.

Mr. Angelone provided three informational documents to Commission members. He indicated that the first document (entitled *A Guide to Property Taxes: Property Tax Relief*) contains information on state property tax relief programs compiled by the National Conference of State Legislatures. The second document provided to the Commission is HJR 2-2003. Mr. Angelone indicated that HJR 2 is a proposed amendment to the Indiana Constitution which will appear on the general election ballot in November, 2004. Mr. Angelone explained that this proposal would provide the legislature more flexibility in assessing property and providing exemptions and deductions to certain types of property.

Mr. Angelone explained that the third document is a Minnesota Supreme Court decision relating to a potential problem that may have to be faced Indiana policymakers if the property tax is eliminated for purposes of debt levies. He indicated that while a state court decision in Minnesota doesn't control in Indiana, the decision illustrates that eliminating the property tax could potentially be deemed to impair a contract embodied in bonds that are backed with property tax revenue.

Commissioner Hudson indicated that eliminating the property tax and replacing it with a sales tax would have federal tax implications for some Indiana taxpayers, as sales tax is not deductible on the federal income tax while state and local property tax is deductible.

The Commission recessed to meet in working groups at 1:40 P.M.

The Commission reconvened at 2:30 P.M.

Senator Kenley recognized the working group chairmen to report on activities of the working groups.

Commissioner Thomas Taylor reported that Group 1 (Property Tax Administrative Issues) wants to accumulate up-to-date information on the cost of the assessment system. He indicated that the group wants to develop information on the total cost of the assessment system; cost by assessment function; and ongoing system cost vs. cost of reassessment. Commissioner Taylor indicated that the group decided it is important also to try to estimate the administrative cost of any replacement tax. He indicated that the group would attempt to obtain information from the State Board of Accounts relating to actual expenditures for the assessment system as opposed to the appropriations data that has been made available to the Commission at the present time.

Representative Eric Turner reported that Group 2 (Local Government Services) discussed investigating the cost savings that could potentially be generated through interlocal service agreements and consolidation of local government functions and services. He indicated that the group may investigate the potential for the state to provide financial incentives to local governments to encourage functional and service consolidations. Representative Turner indicated that the group is also interested in researching the potential cost savings from shifting students to non-public schools. He stated that the group would like to obtain data comparing states on the proportion of students in attending school in a non-public setting.

Commissioner Clark reported that Group 3 (Long Term Debt Issues) considered whether changing the debt service funding from the property tax to an alternative revenue source would have an adverse effect on existing bond issues. He indicated that once this question is resolved, the focus for the group can then turn considering alternative schemes for funding debt service. Commissioner Clark indicated that the group agreed that completing its work would depend on whether Group 5 (Property Tax Levies and Controls) recommends the elimination of debt levies; and what Group 4 (Other State Tax Systems) finds in terms of alternative revenue sources adopted by other states.

Commissioner Hudson reported that Group 4 (Other State Tax Systems) would gather information on tax structures of states that border Indiana and another target state, policies other states use to limit property taxes particularly Proposition 13 in California, and the use of circuit breakers in other states.

Senator Lindel Hume reported that Group 5 (Property Tax Levies and Controls) heard support for eliminating the property tax but discussed the potential for replacement revenue sources (income and sales taxes) to be less stable than property taxes. As a result, the group discussed have a state reserve fund that could be utilized during economic downturns. Senator Hume indicated that the group also discussed that revenue generated by local income or sales taxes in particular local units could vary substantially from the amounts generated by a property tax.

Commissioner Deborah Driskell requested that the Commission investigate the economic impacts from eliminating the federally deductible property tax and replacing it with taxes that are not deductible for federal purposes.

Senator Hume also requested that LSA make copies of the 1998 report of the Citizens' Commission on Taxes available upon request of Commission members. Representative Frenz directed members interested in receiving a copy of the report to notify LSA.

Representative Frenz asked whether members of the public wished to provide testimony to the Commission.

Senator David Ford suggested that, in addition to the questions and issues the Commission is currently discussing, two other important questions need to be considered. According to Senator Ford, the first question is how to redistribute to local units revenues generated from replacement taxes imposed by the state. He indicated that the second question that needs to be considered is what is the economic impact of the solution - does eliminating property taxes and replacing the funding with alternative taxes make people better off.

David Coker a citizen from Vanderburgh County stated that any alternative policies adopted by the Commission should do no more economic harm to those who are currently struggling to pay their property taxes.

The meeting was adjourned at 3:20 P.M.